

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY CAIRO
AMEMBASSY LONDON

C O N F I D E N T I A L STATE 105609

E.O. 11652: GDS

TAGS: EFIN, EG

SUBJECT: EXIMBANK POSTURE

REFERENCE: CAIRO 10487 (A) AND CAIRO 10271 (B)

1. EXIMBANK HAS CAREFULLY NOTED EMBASSY'S REPORTING ON
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IMPROVEMENT IN EGYPT'S SHORT-TERM FINANCIAL SITUATION
FOLLOWING DISBURSEMENT OF GODE LOAN. BANK IS INDEED
SEEKING TO INCREASE ITS ACTIVITY IN CREDITWORTHY MARKETS,
AND HAS BEEN EXAMINING OFF-COVER COUNTRIES SUCH AS
EGYPT, FOR POSSIBLE IMPROVEMENT ALLOWING RESUMPTION OF
SUPPLIER CREDIT PROGRAMS.

2. EXIMBANK BOARD OF DIRECTORS EXAMINED EGYPTIAN SITUA-
TION IN SOME DETAIL IN JANUARY. BOARD CONCLUDED THAT

BANK NOT READY TO RESUME COVER IN EGYPTIAN MARKET AT THIS TIME. BOARD NOTED CURRENT IMPROVEMENT IN SHORT-TERM DEBT PAYMENTS, FAVORABLE POLICY COMMENTS FROM DEPARTMENT OF STATE, SIZE AND POTENTIAL IMPORTANCE OF EGYPTIAN MARKET. BANK ALSO INFLUENCED, HOWEVER, BY EGYPT'S POOR REPAYMENT RECORD OVER THE YEARS, INCLUDING RESCHEDULING OF EXIM CREDITS, IMMENSE FOREIGN DEBT, MINIMAL PROGRESS IN UNDERTAKING INTERNAL REFORMS, AND PRONOUNCED SWINGS IN FOREIGN EXCHANGE AVAILABILITY DUE TO UNPROGRAMMED NATURE OF AID FROM GODE AND OTHER ARAB DONORS. EXIM ALSO NOTED THAT US

AID PROGRAM SUPPORTING SALES OF MANY PRODUCTS TO EGYPT WHICH AID UNABLE TO SUPPORT IN OTHER COUNTRIES, INCLUDING CAPITAL GOODS. LENDERS GENERALLY BELIEVE THAT A COUNTRY WITH EGYPT'S STAGGERING DEBT SERVICE BURDEN SHOULD BE MINIMIZING USE OF EXPENSIVE COMMERCIAL TERM DEBT. EXIM BOARD NOTED ALSO THAT MOST EXPORT CREDIT AGENCIES AND PRIVATE COMMERCIAL BANKS SEEM TO AGREE WITH BOARD'S ASSESSMENT. COMMERCIAL BANKS INFORM EXIM THEY ARE NOT TAKING ON TERM EXPOSURE IN EGYPT DESPITE TEMPORARY ELIMINATION OF SHORT-TERM ARREARS, AND EXIM BELIEVES THE COMMERCIAL BANKS ARE WILLING TO UNDERTAKE BANK-TO-BANK OR SHORT-TERM TRADE FINANCING ONLY BECAUSE PROFIT MARGINS ON SUCH BUSINESS ARE SUBSTANTIAL, INCLUDING PENALTY IN-

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TEREST RATES PREVIOUSLY REPORTED BY EMBASSY AT UP TO 18 PERCENT.

3. AFTER ASSESSING CURRENT SITUATION, EXIMBANK BOARD DECIDED TO CONTINUE POLICY OF REQUIRING EGYPTIAN PROJECT SPONSORS TO OBTAIN PAYMENT GUARANTORS FROM ENTITIES WITH ASSETS OUTSIDE OF EGYPT. ON AN EXCEPTIONAL BASIS, AS IN THE MARRIOTT HOTEL CASE, FOREIGN EXCHANGE SET ASIDE AGREEMENTS MIGHT BE CONSIDERED AS ADEQUATE ASSURANCE OF REPAYMENT FOR AN EXIM LOAN. THIS SEEN AS MOST FORTHCOMING POSTURE BANK COULD TAKE AT PRESENT.

4. ---- WE NOTE MIDDLE EAST ECONOMIC DIGEST FOR MARCH 24 REPORTS THAT U.K. UNDER SECRETARY OF STATE FOR TRADE MEACHER STATED RECENTLY IN CAIRO THAT U.K. WOULD BE PREPARED TO WRITE OFF DLRS 36 MILLION IN EGYPTIAN TRADE DEBTS "IF OTHER WESTERN NATIONS WERE PREPARED TO WRITE OFF SIMILAR DEBTS." WOULD APPRECIATE EMBASSIE;' COMMENTS ON WHETHER OR NOT MEACHER ACCURATELY QUOTED.

5. DESPITE EGYPT'S MUCH TOUTED CURRENT PAYMENTS STATUS ON SHORT-TERM TRADE DEBT, WE HAVE SEEN NO EVIDENCE THAT MEDIUM AND LONG TERM DEBT IS CURRENT. EXIMBANK IS STILL WAITING FOR PAYMENT OF DLRS 5.7 MILLION

DUE APRIL 3 UNDER EXIM CREDIT R-19 (RESCHEDULING). PAY-
MENT NOT RECEIVED AS OF APRIL 14.

6. EXIMBANK STAFF DISCUSSED EMBASSY'S VIEWS WITH
COMATT EIGHMIE DURING HIS VISIT TO BANK APRIL 14, ALTHOUGH
INFORMATION PARA 5 NOT YET KNOWN TO STAFF. BANK AGREES
WITH EIGHMIE THAT EMBASSY MAY BE ABLE TO PLAY USEFUL
ROLE IN SEEKING THIRD COUNTRY GUARANTORS FOR EXIMBANK
LOANS. -

7. DEPARTMENT WOULD ALSO APPRECIATE EMBASSY LONDON'S
COMMENTS ON REPORTED ECGD GUARANTEE OF MORGAN GRENFELL
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LINE OF CREDIT TO BANK OF ALEXANDRIA AT 6 PERCENT RATE
OF INTEREST (REFTEL B) WHICH BELOW MINIMUM PROVIDED BY
INTERNATIONAL ARRANGEMENT ON EXPORT CREDITS. VANCE

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